URBRA

Progress of Retirement Benefits Sector Reforms and the Prerequisites to Successfully Continue the Sector's Growth Agenda.

Martin A Nsubuga was appointed Acting Chief Executive Officer at the Uganda Retirement Benefits Regulatory Authority (URBRA) at the end of February, 2018. He took over from David Nyakundi Bonyi who left the Authority at the end his tenure. He is concurrently the Director of Supervision and Compliance, and he has been pivotal in setting up URBRA's institutional capabilities and the supervisory framework for the Retirement Benefits Sector.

Before joining URBRA, he spent close to 15 years at the Ministry of Finance, Planning & Economic Development (MoFPED), working in different capacities where he initiated policy and regulatory reforms in Insurance, Pension and Capital Markets.

He is a Chartered Accountant and a Member of the Association of Chartered Certified Accountants (ACCA). He holds a BSc. in Economics, MSc. in Financial Management and is an accredited Fellow of the Macroeconomic and Financial Management Institute (MEFMI) of Eastern and Southern Africa.

Martin A Nsubuga, Ag Chief Executive Officer

How far is the Retirement Benefit Sector Reform Process?

The Retirement Benefits Sector reform is an ongoing process and will take some time to complete. The aim is to ensure that whatever reforms are undertaken do not result in unintended consequences. Some critical aspects of governance through regulating and supervising the establishment, management and operation of Retirement Benefits Schemes and service providers are already effective. Ultimately, we seek to promote, the stability, security and good governance of Retirement Benefits Schemes, to protect the interests of members and beneficiaries.

What are the economic implications of Retirement Benefits Sector reforms?

Our domestic savings have generally been low and therefore need to be harnessed to better promote economic growth. The reforms stand to create avenues by which Ugandans can build up future income and consumption. With increased coverage, funds saved could relieve pressure on the over-stretched government budget and support Uganda's development agenda if invested prudently. At an individual level, it is envisaged that workers will be encouraged to save (more) through Retirement Benefit Schemes, and be able to provide for their own retirement, curb old age poverty and excessive dependency on relatives and Government.

What is your comment about cabinet proposals to amend the NSSF Act?

Cabinet directs Government policy. Ours is to implement policy and ensure that all retirement benefits schemes including the National Social Security Fund (NSSF) are capable of delivering strong governance, sustainability and full transparency. We are focused on building on the strengths of the existing Retirement Benefits System, while progressively addressing its deficiencies. What I can say is that a sound Retirement Benefit system requires examination of the key determinants of access to retirement income and adequacy of benefits. This means understanding the appropriate degree and form of compulsion in the Retirement Benefit System as well as alternative vehicles needed to increase contractual and voluntary savings.

What plans do you have for the informal sector and self-employed low income earners?

Saving for retirement is generally considered as being low priority, and only becomes relevant near retirement. Low income earners particularly face continued challenges of meeting current and near future needs. Considering the gradual collapse of the traditional old age support mechanism, there is need to broaden channels of saving for retirement.

From the very start, we established that one of the proximate reasons for Retirement Benefit Sector Reform was disproportionate coverage of the existing Retirement Benefits Schemes favoring the organized workforce while informal employment is on the rise. Our response is to develop a regulatory framework and design options for micro-pensions to enable flexibility in line with the nature of informal sector engagements and earnings. But for the very poor, we have made a case for the deliberate creation of social assistance programmes on a non-contributory basis using a means tested or universal approach.

How effective is URBRA in ensuring that members' funds are safe?

URBRA was established to regulate and supervise the establishment, management and operation of Retirement Benefits Schemes and service providers. The initial years of our work focused more on establishment and operation of schemes. Our focus has since been elevated to undertaking risk assessments of market participants, implementing necessary supervisory measures and promotion of sector development.

We are committed to pursuing good outcomes for savers. Towards this aim, we have introduced a new approach where analysis of performance (scheme and investment performance) is not limited to measurements of profitability alone. Governance risks can greatly undermine the measurements of long-term financial performance.

Over the past year, we have been looking in depth at issues including cost disclosure, the way we analyse non financial data, how we prioritise the allocation of our limited resources and how we use our powers. We have also sought the views of our external stakeholders. Having completed this work, we expect to spend the coming period explaining and implementing changes to the way we supervise. That said, we are already being quicker and bolder in the use of our powers.

Vision:
A vibrant, secure and sustainable Retirement Benefits System.

Mission:
To regulate, supervise and promote the development of a stable and effective Retirement Benefits Sector.

Core Values:
Professionalism, Integrity, Innovativeness and Transparency.

The Work of the Authority:

i) Regulate and supervise the establishment, management and operation of Retirement Benefits Schemes;

ii) Protect the interests of scheme members and beneficiaries;

iii) Carryout the following specific functions:
- License sector players;
- Approve schemes' auditors and actuaries;
- Ensure the sustainability of the Retirement Benefits Sector;
- Contribute to financial sector stability;

iv) Improve understanding and promote the development of the Retirement Benefits Sector;

v) Advise the Minister of Finance, Planning and Economic Development on all matters relating to the development and operation of the Retirement Benefits Sector;

vi) Implement Government policy relating to the Retirement Benefits Sector.

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Are you suggesting that schemes are not disclosing information about their dealings?

We are tasking Trustees to consider it crucial to have cost-effective retirement saving mechanisms. We therefore expect all costs and charges borne by members to be transparently communicated to enable value for money comparisons to be made and to assess the fairness to members of the costs and charges.

Thankfully, we have seen improvements in statutory returns and financial statements with respect to disclosure of expenses, benefits and related gains, losses, assets and liabilities. However, we require additional disclosure of costs at the time of investment to disinvestment.

Why are you planning to increase focus on investment performance and transparency?

Starting next year, we are going to devote more time on examination of investment activity. This is because investment performance determines accumulation of retirement benefits; in fact, our estimates show that investment returns have potential to account for over 40% percent of benefits. However, fees and cost can significantly eat-up benefits to members. Trustees must therefore demand full disclosure to ensure that risks, returns, and costs are balanced in ways that provide bottom-line performance, both net and gross of fees, expand reporting to include longer-term performance results, and report results by asset class.

Aren't you relegating your work to Trustees?

No, Trustees are accountable for ensuring that schemes meet the needs of its members. While we do our work, we expect supervisory awareness and responsiveness. This is precisely why we license Trustees on the premise that they have an understanding of their fiduciary duties, including the distinction between duties, powers and responsibilities; their obligation to take into account the needs of all beneficiaries; the concept of duty of care and the standard to which it should be exercised; the requirement to act impartially; the meaning of acting responsibly and prudently; their duty not to profit from the trust and to ensure that benefits are paid.

What will be the primary focus during your tenure?

The sector is dominated by Defined Contribution Schemes. This implies that operational, investment and longevity risks are borne by the members. My tenure will focus on encouraging high standards and good governance in running schemes and improving confidence in the Retirement Benefits Sector.

In addition, individuals under defined contribution schemes face the risk of outliving their savings if they or the schemes they subscribe to fail to accumulate necessary funds. While progress has been made with respect to offering a broad range of investment options to enable diversification of investment risk, there has been relatively little focus on longevity risk or the need for lifetime income protection through retirement fund annuities, life insurance, long-term care insurance and programmed withdrawals

To encourage lifetime income products, we are proposing a fiduciary harbour to allow the use of life income products as the qualified default option. In addition, providing a tax advantage to members who elect a minimum percentage of their account balance to be paid as a lifetime benefit would spur an increase in election rates for this product feature.

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